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**BEFORE THE  
HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE  
SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION**

**Coast Guard and Maritime Transportation Authorization Issues**

**October 29, 2013**

Chairman Hunter, Ranking Member Garamendi and members of the Subcommittee. Thank you for the opportunity to present written testimony to the Subcommittee regarding maritime transportation authorization issues. I regret that I am unable to participate in person.

The U.S. maritime industry plays a critical role in meeting the Nation's economic and security needs, which Congress has recognized through its support of programs to foster, promote and develop the U.S. Merchant Marine. Continued support of these programs is needed to sustain the U.S. Maritime Transportation System as it exists today, but a different approach will be needed to improve and grow the industry and to ensure its viability into the future.

**Strategy to Revitalize the U.S. Merchant Marine**

The Maritime Administration is guided by the preamble of the Merchant Marine Act of 1936 which includes a declaration of federal policy calling for the existence and continuation of a U.S.- flag Merchant Marine to carry our domestic commerce and a substantial portion of our foreign commerce. The U.S.- flag fleet not only provides safe, reliable and environmentally responsible transport of cargo to support economic activity, both domestically and internationally, but also supports Department of Defense (DOD) sustainment sealift capacity requirements in times of war or national emergencies. However, the U.S. Merchant Marine engaged in international trade has steadily declined since World War II and currently carries only a small fraction (less than 2 percent) of our Nation's overseas trade. Studies of the commercial vessel operating industry indicate that the cost to operate a U.S. flag vessel is significantly higher than the average cost of operating a comparable vessel under foreign flag registry.

Today, there are fewer than 90 self-propelled U.S.-flag oceangoing ships of 1,000 gross tons or more operating principally or solely in the international trades, down from more than 300 vessels in 1975. Major and decisive action is required to reverse this decline, or a viable U.S. presence in international maritime commerce could be at risk.

Accordingly, MARAD currently is developing a strategy to revitalize the U.S. merchant marine (Strategy). The Strategy will focus on incentives for ship owners to flag vessels under the U.S. flag with U.S. crews. Although the Strategy will likely include other segments of the industry, the initial focus will be on developing options which, if implemented, could result in gains for the U.S. flag and potentially result in a significantly higher portion of U.S. overseas trade for U.S. flag vessels. Increased U.S. overseas trade for U.S. flag vessels would also provide more jobs for American seafarers. In turn, this would increase the number of ships and mariners to respond in time of war or national emergencies.

As a first step in developing a strategy to revitalize the U.S. merchant marine strategy, MARAD is organizing a public meeting inviting the public and other Marine Transportation System stakeholders to participate in a discussion intended to develop such a strategy. The meeting is scheduled for January 14-16, 2014 as published in the Federal Register on October 28th at Docket No. MARAD-2013-0101. The goal of the public meeting is to generate unconstrained ideas to improve, strengthen and sustain U.S. cargo opportunities and sealift capacity and to develop a list of items for action, voluntary adoption, or further study.

### **Cargo Preference**

Complementing the approaches expected to be developed as part of the strategy to revitalize the U.S. merchant marine, MARAD has intensified its efforts to identify additional federal programs with international transportation opportunities. Engagement with Federal agencies that administer programs that support international maritime trade has been expanded, and MARAD is working expeditiously on the rulemaking to modernize cargo preference rules consistent with Duncan Hunter National Defense Authorization Act of 2009.

### **Maritime Security Program/ National Defense Reserve Fleet/Ready Reserve Force**

In accordance with federal policy, a priority of MARAD is ensuring the readiness and availability of a capable U.S. Merchant Marine fleet with modern U.S.-flag vessels, skilled labor and global logistics support to help meet national maritime transportation requirements in peacetime emergencies and armed conflicts. The National Defense Reserve Fleet (NDRF) and its Ready Reserve Force (RRF) component provide valuable support to DOD in time of war or national emergency as one part of the required sealift force.

The Maritime Security Program (MSP) complements the RRF and the Military Sealift Command's reserve sealift vessels with operating assistance funds to a fleet of 60 privately-owned, militarily useful, U.S.-flagged and U.S.-citizen-crewed ships. The MSP fleet ensures the U.S. military has assured access to a global fleet of ships in international commercial service, plus intermodal logistics capability, to move military equipment and supplies when required. The MSP fleet helps support the employment of approximately 2,700 U.S. mariners and an additional 5,000 shore-side jobs—key personnel to provide the necessary base to support government vessel crewing. MSP vessels have been key contributors to our Nation's efforts in Afghanistan and Iraq over the last decade, moving over 50 percent of all military

cargo – over 26 million tons – to the Middle East. Since 2009, MSP carriers have moved over 90 percent of the ocean-borne cargo needed to support U.S. military operations and rebuilding programs in both countries.<sup>1</sup> Of even greater significance, MSP carriers led development of multi-modal services into Afghanistan via the Northern Distribution Network and establishing air-sea bridging that provide critical alternative routes to resupply and support our U.S. military forces.

Last year, Congress included language in the National Defense Authorization Act for Fiscal Year (FY) 2013 to extend existing MSP contractor agreements through FY 2025. As of June 14, 2013, all 60 MSP operating agreement holders extended their commitment to the program with U.S.-flag vessels and intermodal systems through FY 2025. The Continuing Appropriations Act, 2014 (P.L. 113-46), enacted October 17, 2013, provides full funding of \$186 million for the program through January 15, 2014. I thank the members of the Subcommittee for their support for this full funding. Given that MSP payments only partially offset the cost to operating under U.S. flag, many of the vessel owners may shift to foreign flag registry and continue operation without the MSP stipend. The loss of these vessels would mean the loss of experienced U.S. mariners with unlimited ocean credentials who can crew the Government-owned sealift fleet, and thus would diminish the country's ability to meet critical national security requirements with the assured access to this logistics capability. The Commander of the United States Transportation Command has reiterated to me and the Secretary of Transportation that a full 60-ship MSP is needed to support DOD's requirements. Continuation of full MSP funding for FY 2014 will ensure support for DOD requirements under our own flag.

## **Maritime Education**

MARAD's mariner training activities focus on preparing individuals for maritime careers while developing and maintaining a vital and viable U.S. Merchant Marine for commerce, emergency response, and national security. The U.S. Merchant Marine Academy (USMMA) and State Maritime Academies educate and graduate Merchant Marine officers ready to serve the maritime industry and Armed Forces by providing the highest caliber academic study with state of the art learning facilities. MARAD appreciates the Congressional support for the education and training of the Nation's future Merchant Marine officers and maritime transportation professionals.

As a result of the recent Federal government shutdown, MARAD will consider and may possibly recommend statutory authorizations that would minimize the impact of any future lapse in appropriations for the USMMA. While all the Federal service academies were forced to make changes as a result of the Government shutdown, the impact on the USMMA was especially severe because nearly all of the USMMA's faculty and staff are civilian federal employees. Unlike the other service academies whose staffs include a large number of active duty military personnel, the USMMA

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<sup>1</sup> Report by NDTA Military Sealift Committee Maritime Policy Working Group, "The Use of Commercial Vessels and Intermodal Systems for Military Sealift," 2009-2011 Addendum.

experienced significantly reduced operations, classes were cancelled and administrative support programs ceased.

The USMMA also operates under a very tight academic schedule, which makes it difficult for Midshipmen to make up for lost educational time. Specifically, the Midshipmen need to complete their course work and their sea days in order to qualify to take the U.S. Coast Guard licensing exam and graduate. As a result of the shutdown, Midshipmen missed 13 days of class and will have to forego scheduled academic breaks in order to complete their graduation requirements. Significant effort and costs were expended to transport the Midshipmen back to the Academy when the Government reopened.

### **Port Infrastructure and Development**

The Nation's ports are vital to the U.S. economy and ultimately job growth – our ports process 99.4 percent of the nation's overseas trade by volume and 65.5 percent by value<sup>21</sup>. However, some of the port facilities we rely on as a Nation to move essential commodities are in a declining state of repair, and the current climate of eroding revenues and tight credit can stall infrastructure projects when and where they are needed most. Because much of this infrastructure is privately owned and operated, the Federal Government has historically taken a largely “hands off” stance regarding port development and expansion. However, numerous ports have indicated a need for assistance in planning and State/local engagement to identify and secure the financing from all levels of government and from the private sector to modernize and expand their infrastructure to meet current and future freight needs.

Port infrastructure development legislation<sup>3</sup> enacted in February 2010, directs the Secretary of Transportation, through the Maritime Administrator, to “...establish a port infrastructure development program for the improvement of port facilities....”

In response to the legislation, MARAD conducted extensive stakeholder engagement to identify the key issues and solutions to develop the program's framework and ultimately respond to the needs of the port community. Once fully implemented, the program – StrongPorts – will provide ports with systematic support in three categories – Planning and Engagement, Financing and Project Management. The program objective is to improve port capacity, efficiency and state of good repair through an improved planning process to attract private, local, state and Federal financing of “investment grade” projects. The first phase of the program began in late September 2013 with a joint venture between MARAD and the American Association of Port Authorities to develop a port planning and investment toolkit.

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<sup>2</sup> Source: “Port-Related Infrastructure Investments Can Reap Dividends,” by Kurt Nagle, President and CEO of AAPA. Industry Today, Vol. 14, Issue 3.

<sup>3</sup> Title 46, U.S. Code, Section 50302.

Additionally, the President's Budget Request for FY 2014 includes \$2 million for the StrongPorts program, the majority of which will go toward port planning grants, if the funds are appropriated. Our long term vision is to assist hundreds of our Nation's ports in improved planning, stakeholder engagement and infrastructure investment through this program to ensure they are ready for the significant growth in freight volumes predicted in the coming years.

### **Marine Environment**

Another priority for the Agency is addressing the most pressing environmental issues facing the maritime industry. Of primary concern are invasive species in ballast water, energy/fuel consumption and air emissions.

Effective collaboration among government and industry stakeholders is necessary to effectively transition toward a "greener" maritime future. In the past two years, MARAD has been increasingly proactive in analyzing and demonstrating alternative fuels/technologies for maritime applications. Some of these maritime applications place a strong emphasis on the use of natural gas. MARAD's Maritime Environment and Technology Assistance initiative will continue to advance critical research on ballast water discharges, advance infrastructure and methodologies for certifying and verifying ballast water technologies and improve vessel emissions data.

### **Shipyards and Ship Building**

MARAD appreciates the Subcommittee's continued support for programs to enhance domestic ship building capabilities. Increased applications in FY 2013 for Maritime loan guarantees (Title XI) and Small Shipyard Grants reflect applicants' willingness to invest in U.S. shipbuilding.

For FY 2013, MARAD received 113 applications for \$9.46 million in Small Shipyard Grant funding. Twelve shipyards in 10 states received grants. The current Title XI subsidy balance for pending and new applications is \$38 million, which will support approximately \$421 million in shipyard projects assuming average risk category subsidy rates. MARAD is currently evaluating five applications requesting approximately \$1.026 billion in financing for 18 ships.

Thank you for this opportunity to address maritime authorization issues. I appreciate the Subcommittee's interest and look forward to working with members as we develop a strategy to strengthen the U.S. Merchant Marine into the future.

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